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SUBJECT: SENEGAL: IMF MISSION GAVE POSITIVE MARK, BUT URGED THE
PAYMENT OF CLAIMS ON EXTRA-BUDGETARY SPENDING

REF: DAKAR 1358

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¶1. Summary: An IMF team visited Senegal in mid-November to carry out a fourth review of the Policy Support Instrument (PSI) and a second review of the Exogenous Shocks Facility (ESF). The IMF team met with government officials as well as donors, private sector and civil society representatives. Norbert Funke, the team leader, termed FY 2009 a "difficult year", and said that Senegal has made positive progress in structural reforms despite some delays in their implementation. (Note: Senegal's fiscal year runs concurrent with the calendar year. End Note.) All quantitative programs targets have been met and are in line with the PSI, except for the payment of extra-budgetary spending estimated at CFA 103 billion (USD 229 million). End Summary.

FY09 A "DIFFICULT YEAR", BUT...

¶2. In reviewing the state of the economy, Funke said that FY09 had been extremely difficult as the consequences of the world economic crisis and internal difficulties due to extra-budgetary spending were felt throughout the economy. He projected that in FY09, GDP growth will reach 1.4 percent and that fiscal deficit will represent 4.5 percent of GDP. "The situation is difficult but sustainable," said Funke.

GOOD PROSPECTS FOR FY2010

¶3. For FY10, Funke predicted a GDP growth of 3.4 percent, a budget deficit of 5.0 percent of GDP and inflation at less than 2 percent as a result of the expected rebound in world economy and the implementation of remaining economic reforms. (Note: The budget deficit figure may be a source of concern, keeping in mind that the West African Economic and Monetary Union (WAEMU) convergence criteria call for current account deficit, excluding grants, not to exceed 5 percent of GDP. End Note.) He noted that the FY10 budget and macroeconomic objectives are in line with the PSI program despite last year's discovery of significant unauthorized budget expenditures, debt to the private sector and efforts by the Government of Senegal (GOS) to misrepresent both to IMF officials.

GOS IMPLEMENTED REFORMS

14. Funke said that Senegalese authorities have made good progress in bringing the PSI program back on course. All quantitative program targets have been met and the GOS has managed to reduce the number of unpaid bills owed to private enterprises through money borrowed from foreign sources, banks and donors. Other important steps implemented include:

- The audit of the budget monitoring system called the "Systeme Integre de Gestion des Finances Publiques" (SIGFIP) aimed at improving the reliability, coverage, and ability to produce periodic budget execution data;
 - The completion of an external audit on extra budgetary spending, which represented an important step for the continuation of the PSI program. The audit showed that CFA 36 billion and CFA 67 billion had been spent by Ministries and Agencies respectively without budget appropriation; and
 - Renewed commitment to adhere to budgetary laws and regulations.
- As in many French-influenced systems, the government is supposed to submit a balanced budget to the National Assembly. In this system, revenues are a minimum target, while expenditures represent maximum authorization. In reality, the GOS consistently underestimates both revenues and expenditures and any subsequent changes during the year require an amendment to the budget known as "loi de finance rectificative". So far the government has, in most cases, bypassed this regulatory avenue. However, in this latest round of talks, Funke said that they had urged the government that from now on every time there is unanticipated revenues or expenditures, that the President sends to the parliament amendments to the budget as required by law. The first test of the government's adherence to this promise will come in May 2010 when the IMF wants to see an amendment to budget detailing how the government plans on paying off debts to the private sector that were promised by the aforementioned extra budgetary allocations.

15. Funke noted that his team will not recommend further expanding the scope and scale of the current ESF. Positing that, in spite of

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falling tax receipts, Senegalese authorities are committed to the pursuit of prudent fiscal policy, albeit with temporary spending flexibility to avoid large cuts in budgetary outlay, as a means to help them reach eventual full compliance with IMF recommendations. Funke also indicated that remittances and foreign direct investments, slow in the first quarter of 2009, are looking to rebound in the third quarter of 2009.

SOME PROBLEMS TO SOLVE

16. Funke underlined that some problems remained and that the GOS must deal with them promptly:
- The payment of claims by the private sector;
 - the approval of a supplemental budget by May 2010 that takes into account the payment of extra-budgetary debt in the amount of CFA 103 billion (USD 229 million);
 - The publication in mid-January 2010 of the audit of the FY2008 budget. Currently, according to Chief of Staff of the Ministry of Finance, the Ministry has completed and submitted all the actual budgets figures between FY01 to FY07, called a "loi de reglements", to the Accounting Court for auditing. The Accounting Court is in the process of doing its final review of all of these budgets and Funke said that they want them to complete their work by December 2009. In the meanwhile, the Ministry of Finance is currently completing the audit of the 2008 budget and early next year it will begin to audit the 2009 budget. Funke said that they have asked that the Ministry of Finance and then the Accounting Court complete the audit of both of these budgets by June 2010;
 - the continuation of the study to identify the level of, and justification for, tax exemptions to help safeguard tax revenues and tax system coherence; and
 - the improvement of public finance by favoring transparency such as publishing the budget as approved at the beginning of the fiscal year as well as expenditures at the conclusion of that fiscal year.

DONORS CONCERNS

17. The donors, during the course of a full donor group (approximately 40 countries and organizations) and a core donor group (consisting of the Ambassadors of the U.S., France, Germany, Holland, Canada, the European Union, the World Bank and IMF) meeting with the Finance Minister, expressed their deep concerns about the deterioration of the country's economic situation and increasing corruption, indicating that they remained pessimistic over the capacity and will of the GOS to make reforms. The core donors made clear that many GOS actions, including the alleged bribery of the recently departed IMF Rep to Senegal known as the "Segura affair" (Reftel) had raised many unanswered questions about Senegal's commitment to good governance among the donors, especially within their governments and legislatures. These concerns, the donors insisted, could only be addressed by the GOS' concrete acknowledgment of institutional priorities; chief among them reform of the energy sector, mandating transparency in land deals and empowering the country's anti-corruption commission to actually investigate cases and bring them to trial. The IMF rep seconded this approach, but declared the Segura Affair closed. Funke referred to the IMF's matter of fact press communique as the organization's definitive word on the issue.

18. (SBU) COMMENT: Considering that it was only last year that the IMF discovered the cover up of massive extra budgetary expenditures by the government, this latest assessment of Senegal's economic health strikes most observers as far too rosy. While Funke repeatedly complimented the government for its structural reforms efforts, Senegal will have to undertake far deeper economic and budget reforms to improve the business climate by establishing transparency, especially in budget expenditure. Further, the IMF's passing of the buck to the World Bank when asked about the country's ailing energy sector is worrisome. Never-ending power shortages and rumored corruption in its power sector have always strained the government's already tight budget and in turn deterred foreign investors, thus reducing GDP growth. It seems overly optimistic in Post's opinion that Senegal will achieve a growth rate of 3.4 percent (which is less than the 4 percent the government predicts), considering the fact that there is very little in terms of new investments in the near future that would account for such a massive increase in growth. End Comment.
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